

**REGIONAL TRANSIT AUTHORITY**

Financial Statements and Schedules

December 31, 2002 and 2001

With Independent Auditors' Report Thereon

# REGIONAL TRANSIT AUTHORITY

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## Postlethwaite & Netterville

A Professional Accounting Corporation  
Associated Offices in Principal Cities of the United States  
[www.pncpa.com](http://www.pncpa.com)

### Independent Auditors' Report

Board of Commissioners  
Regional Transit Authority:

We have audited the accompanying statements of net assets of Regional Transit Authority (RTA) as of December 31, 2002 and 2001, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of RTA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RTA as of December 31, 2002 and 2001, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 13, 2003 on our consideration of RTA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information as listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Postlethwaite & Netterville*

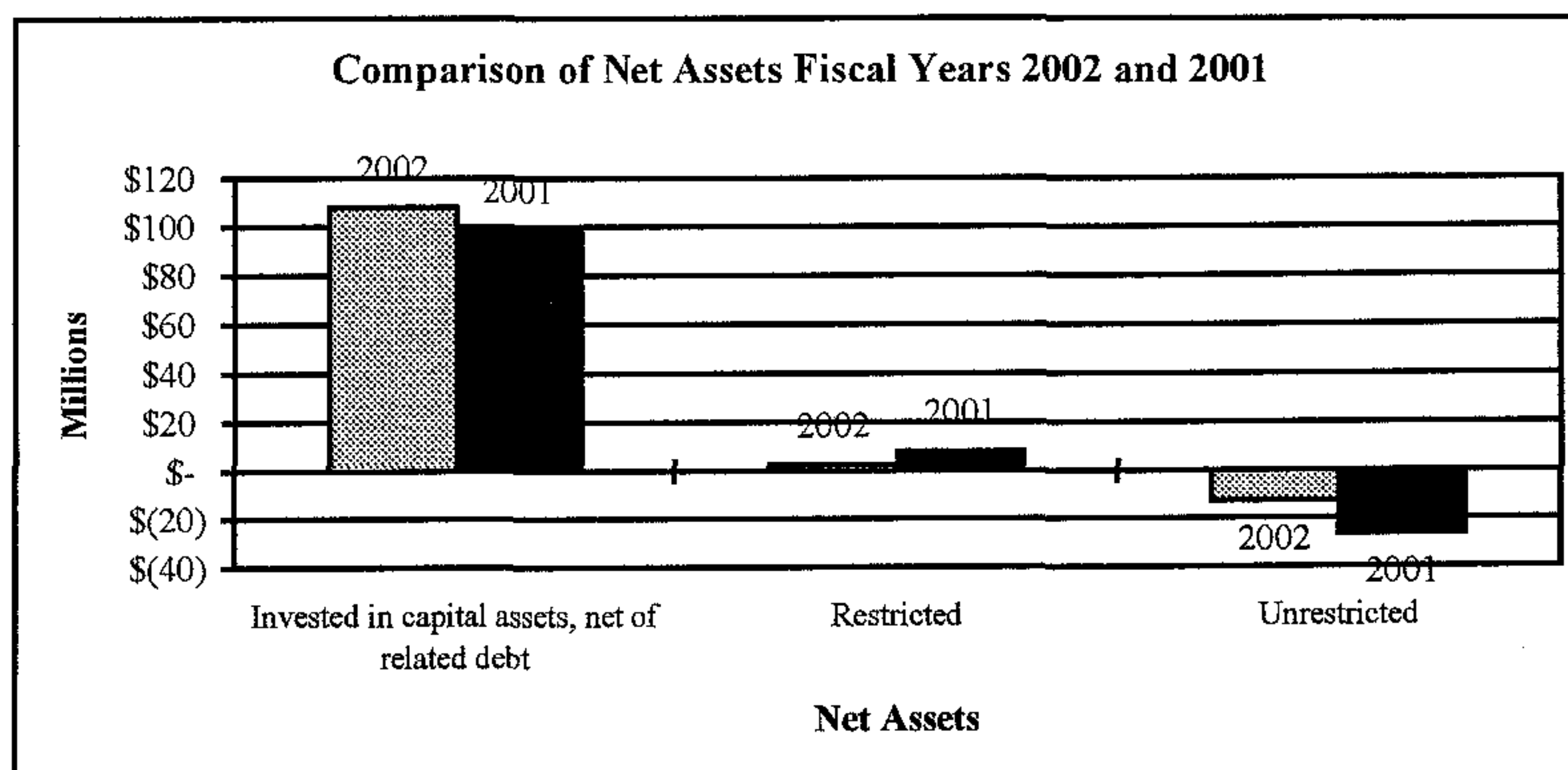
June 13, 2003

**Regional Transit Authority  
Management's Discussion and Analysis  
Year Ended December 31, 2002**

This section of the RTA's annual financial report presents a discussion and analysis of the RTA's financial performance during the fiscal year that ended December 31, 2002. Please read it in conjunction with the RTA's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

The RTA continued its construction for the Canal Street Car Line and preliminary engineering for the Desire Street Corridor during 2002. The RTA expects to open the Canal Street Car Line in October 2003 for revenue service. Construction expenditures during 2002 totaled \$49.7 million. The Hotel/Motel tax collected by RTA generated \$4.6 million of revenues in 2002. Capital grants for the construction and acquisition of property and equipment increased by 101.5% to \$37.0 million.



## OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and other supplementary information.

The financial statements provide both long-term and short-term information about the RTA's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The RTA's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Assets. All assets and liabilities associated with the operation of the Authority are included in the Statements of Net Assets.

The Statement of Net Assets reports the RTA's net assets. Net assets, the difference between the RTA's assets and liabilities, are one way to measure the RTA's financial health or position. The increase in the RTA's net assets during 2002 is an indicator of its positive financial health.

## FINANCIAL ANALYSIS OF THE RTA

### Net Assets

The RTA's total net assets at December 31, 2002 reached approximately \$97.6 million, a 22.3% increase over December 31, 2001 (See Table A-1). Total assets increased 22.2% to \$290.2 million, and total liabilities increased 22.1% to \$192.6 million.

<b>Table A-1</b> <b>Regional Transit Authority's Net Assets</b> <b>(in thousands of dollars)</b>			
	<b>2002</b>	<b>2001</b>	<b>Increase (Decrease)</b>
Current assets	\$ 57,387	\$ 34,995	64.0%
Restricted assets	2,356	7,794	(69.8)%
Capital assets	226,330	191,719	18.1%
Deferred charges	4,089	2,937	39.2%
<b>Total assets</b>	<b><u>290,192</u></b>	<b><u>237,445</u></b>	<b>22.2%</b>
Current liabilities	47,316	37,181	27.3%
Long-term liabilities	145,287	120,518	20.6%
<b>Total liabilities</b>	<b><u>192,603</u></b>	<b><u>157,699</u></b>	<b>22.1%</b>
Net assets:			
Invested in capital assets, net of related debt	108,119	98,359	9.9%
Restricted	2,356	7,794	(69.8)%
Unrestricted (deficit)	(12,916)	(26,407)	(51.1)%
<b>Total net assets</b>	<b><u>97,559</u></b>	<b><u>79,746</u></b>	<b>22.3%</b>
<b>Total liabilities and net assets</b>	<b><u>\$290,162</u></b>	<b><u>\$237,445</u></b>	<b>22.2%</b>

### Changes in Net Assets

The change in net assets at December 31, 2002 was approximately \$17.8 million or 835.6% more than at December 31, 2001. The RTA's total operating revenues decreased by 4.9% to approximately \$37.4 million, and total operating expenses were comparable to 2001 at \$118.5 million. The changes in net assets are detailed in Table A-2, operating expenses are detailed in Table A-3.

The 69.8% decrease in net assets restricted for debt service and other purposes is due to the release of restricted capital lease reserve funds in conjunction with the refinancing of the capital lease. The new lease does not require a reserve fund.

Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, or improvement of those assets. When there are significant unspent related bond proceeds, the portion of the debt attributable to the unspent proceeds are included in the calculation of this item. Instead, that portion of the debt should be included in the net assets component restricted for construction as an offset to the related bond proceeds outstanding.

<b>Table A-2</b> <b>Regional Transit Authority's Changes in Net Assets</b> <b>(in thousands of dollars)</b>			
	<b>2002</b>	<b>2001</b>	<b>Increase (Decrease)</b>
Operating Revenues:			
Passenger fares	\$ 35,794	\$ 37,820	(5.4)%
Other	<u>1,628</u>	<u>1,524</u>	6.8%
<b>Total operating revenues</b>	<b><u>37,422</u></b>	<b><u>39,344</u></b>	<b>(4.9)%</b>
Operating Expenses:			
Operating expenses	101,086	101,121	(0.0)%
Depreciation and amortization	<u>17,415</u>	<u>17,197</u>	1.3%
<b>Total operating expenses</b>	<b><u>118,501</u></b>	<b><u>118,318</u></b>	<b>0.2%</b>
Operating loss	(81,079)	(78,974)	2.7%
Non-operating revenues-net	61,843	62,492	(1.0)%
Capital contributions	<u>37,047</u>	<u>18,386</u>	101.5%
<b>Change in net assets</b>	<b>17,813</b>	<b>1,904</b>	<b>835.6%</b>
<b>Total net assets, beginning of the year</b>	<b><u>79,746</u></b>	<b><u>77,842</u></b>	<b>2.5%</b>
<b>Total net assets, end of the year</b>	<b><u>\$97,559</u></b>	<b><u>\$79,746</u></b>	<b>22.5%</b>

Operating revenues declined by 4.9% to \$37.4 million. The decrease in revenue resulted from a decline in regular passenger fares and student fares. The fare revenues declined as a result of reduced ridership. The decline in passenger fares was partially offset by increase in other operating revenues which increased by 6.8% to \$1.6 million.

Non-operating revenues decreased by 1.0% to \$61.8 million. Federal and State of Louisiana grants and subsidies increased \$2.6 million or 21.9%. Sales tax revenue decreased \$3.4 million or 6.6% and Hotel/Motel tax increased \$0.3 million or 7.7%.

Capital contributions increased by 101.5% to \$37.0 million due to the grants earned on construction of the Canal Street project and preliminary engineering of the Desire Street project.



<b>Table A-3</b> <b>Regional Transit Authority's Operating Expenses</b> <b>(in thousands of dollars)</b>			
	<b>2002</b>	<b>2001</b>	<b>Increase (Decrease)</b>
Labor and fringe benefits	\$61,743	\$ 62,030	(0.5)%
Depreciation	17,415	17,197	1.3%
Contract services	14,210	14,173	0.3%
Insurance and self-insured costs	12,702	13,781	(7.8)%
Materials, fuel, and supplies	7,228	6,252	15.6%
Utilities	1,390	1,723	(19.3)%
Purchased transportation	1,868	1,674	11.6%
Taxes, other than payroll	810	748	8.3%
Rent	199	213	(6.6)%
Miscellaneous	936	527	77.6%
<b>Total operating expenses</b>	<b>\$118,501</b>	<b>\$118,318</b>	<b>0.2%</b>

Labor and fringe benefits declined slightly from 2001 to \$61.7 million.

Insurance and self-insured costs decreased by 7.8% to \$12.7 million due to a substantial increase in the provision for legal claims in 2001 offset by additional insurance coverage for revenue vehicles and a cap on the self-insurance reserve obtained during 2002. The increase in 2001 resulted from a number of large settlements and judgments which were adverse to the RTA during 2001.

Materials, fuel and supplies expense increased by 15.6% to \$7.2 million due to a write off of non-vouchered receipts in 2001 involving amounts prior to 2001.

Utilities expense decreased by 19.3% to \$1.4 million due to a decline in fuel costs and the sale of the Arabella facility in 2001.

Purchased transportation increased by 11.6% to 1.9 million as a result of an increase in service hours provided by contracted van and sedan services.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

As of December 31, 2002, the RTA had invested approximately \$362.8 million in capital assets. Net of accumulated depreciation, the RTA's net capital assets at December 31, 2002 totaled approximately \$226.3 million. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$34.6 million or 18.1% over December 31, 2001.

The approximate \$49.7 million increase in construction work in progress is primarily the result of construction costs of the Canal Street Car Line and preliminary engineering costs of the Desire Street Corridor.



## **Debt Administration**

The RTA continues to make its regularly scheduled payments on its 1998A Series Sales Tax Refunding Bonds and its 1991 Series Sales Tax Revenue Bonds. During 2002, \$2,245,000 in principal payments was made.

The RTA has a loan agreement with the Louisiana Local Government Environmental Facilities and Community Development Authority to borrow up to \$65.8 million to finance the local match portion of the Canal Street and Desire Street projects; approximately \$28.1 million has been borrowed against this facility. During 2002, \$187,100 of loan repayments were made on the LCDA Revenue Bonds.

The RTA issued certificates of participation during 2002 to advance refund its capital lease for 175 Orion buses. A defeasance escrow was established with the net proceeds to make the minimum lease payments on the capital lease until it can be prepaid in May 2005 and the lease was removed from the financial statements. The RTA makes annual minimum payments of variable amounts including principal and interest.

All bond debt and lease covenants have been met.

## **CONTACTING THE RTA'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the RTA's finances and to demonstrate the RTA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Regional Transit Authority at (504) 248-3724.

# REGIONAL TRANSIT AUTHORITY

## Statements of Net Assets

December 31, 2002 and 2001

	2002	2001		2002	2001
Assets			Liabilities and Net Assets		
Current assets:			Current liabilities (payable from current assets):		
Cash (note 2)			Accounts payable, accrued expenses, and deferred credits	\$ 21,807,845	12,784,175
Accounts receivable, net (note 3)			Current portion of legal and small claims (note 9)	4,884,683	4,200,000
Investments, unrestricted (note 2)			Current portion of amounts due to Transit Management of Southeast Louisiana, Inc. (TMSEL)	13,238,803	14,173,255
Inventories			Current portion of capital lease (note 8)	3,795,000	3,238,608
Prepaid expenses and other assets					
Total current assets	57,386,752	34,995,207		43,726,331	34,396,038
Restricted assets, cash and investments (note 2):			Current liabilities (payable from restricted assets):		
1998 series bond trustee accounts (note 5)	258,423	319,664	Current portion of accrued bond interest	524,835	508,084
1991 series bond trustee accounts (note 5)	659,904	980,877	Current portion of bonds payable (note 5)	3,065,100	2,277,000
2000 and 2000A series bond trustee accounts (note 5)	31,039	-		3,589,935	2,785,084
Self-insurance (note 9)	1,207,275	1,193,622			
Capital lease escrow (note 8)	199,015	5,300,232			
Total restricted assets	2,355,656	7,794,395	Total current liabilities	47,316,266	37,181,122
Deferred charges - bond issue costs (note 5)	4,089,357	2,936,775	Long-term liabilities:		
Property, buildings and equipment, net (note 4)	226,330,503	191,718,620	Employee benefits payable (note 7)	7,330,000	7,330,000
			Accrued bond interest, less current portion	9,178,726	8,026,962
			Legal and small claims, less current portion (note 9)	26,414,160	23,769,991
			Amounts due to TMSEL, less current portion	-	491,067
			Bonds payable, less current portion (note 5)	64,575,627	42,011,625
			Capital lease payable, less current portion (note 8)	37,071,665	37,297,822
			Deferred revenue	717,000	1,590,500
			Total long-term liabilities	145,287,178	120,517,967
			Total liabilities	192,603,444	157,699,089
			Net assets:		
			Invested in capital assets, net of related debt	108,119,550	98,358,519
			Restricted	2,355,656	7,794,395
			Unrestricted (deficit)	(12,916,382)	(26,407,006)
			Total net assets	97,558,824	79,745,908
			Commitments and contingencies (notes 7, 8, 9 and 10)	-	-
				\$ 290,162,268	237,444,997

See accompanying notes to financial statements.

# REGIONAL TRANSIT AUTHORITY

## Statements of Revenues, Expenses and Changes in Net Assets

For the years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Operating revenues:		
Passenger fares	\$ 35,793,957	37,820,257
Other	1,628,209	1,523,768
Total operating revenues	<u>37,422,166</u>	<u>39,344,025</u>
Operating expenses:		
Labor and fringe benefits (note 1(a))	61,743,359	62,030,477
Depreciation	17,415,105	17,196,574
Contract services	14,209,563	14,173,008
Insurance and self-insured costs	12,701,603	13,780,591
Materials, fuel and supplies	7,227,554	6,252,345
Utilities	1,390,320	1,722,555
Purchased transportation	1,868,359	1,674,341
Taxes, other than payroll	810,513	747,928
Rent	198,938	213,159
Miscellaneous	935,520	527,135
Total operating expenses	<u>118,500,834</u>	<u>118,318,113</u>
Loss from operations	<u>(81,078,668)</u>	<u>(78,974,088)</u>
Nonoperating revenues (expenses):		
Tax revenues:		
Sales tax	47,633,194	51,002,378
Hotel/Motel tax	4,595,653	4,265,692
Government operating grants:		
Federal subsidy	11,752,040	9,292,396
State Department of Transportation	1,990,789	1,703,646
Planning and technical study grants	595,064	767,110
Gain (loss) on sale of assets	(187,300)	704,208
Investment income	389,220	630,445
Interest expense	(4,924,335)	(5,873,974)
Total nonoperating revenues	<u>61,844,325</u>	<u>62,491,901</u>
Net loss before capital revenues	<u>(19,234,343)</u>	<u>(16,482,187)</u>
Capital contributions	<u>37,047,259</u>	<u>18,386,347</u>
Increase in net assets	17,812,916	1,904,160
Net assets:		
Balance, beginning of year	79,745,908	77,841,748
Balance, end of year	<u>\$ 97,558,824</u>	<u>79,745,908</u>

See accompanying notes to financial statements.

# REGIONAL TRANSIT AUTHORITY

## Statements of Cash Flows

For the years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Cash received from operations	\$ 33,984,411	37,862,445
Cash received from other sources	888,432	684,089
Cash paid to employees and for related expenses	(62,492,916)	(59,450,207)
Cash paid to suppliers	(26,298,183)	(22,515,715)
Cash paid for insurance, legal claims and related costs	(9,119,150)	(4,213,479)
Net cash used in operating activities	<u>(63,037,406)</u>	<u>(47,632,867)</u>
Cash flows from noncapital financing activities:		
Cash received from sales tax	51,349,707	51,384,150
Cash received from hotel/motel tax	4,535,621	4,463,156
Operating subsidies received from other governments	14,402,587	11,825,089
Net cash provided by noncapital financing activities	<u>70,287,915</u>	<u>67,672,395</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(44,604,770)	(22,958,243)
Capital revenues from federal grants	19,245,707	16,431,003
Interest paid	(3,791,565)	(5,384,625)
Repayment of bonds	(2,432,100)	(2,125,500)
Repayment of capital lease obligation	(1,586,767)	(3,015,025)
Bond issuance costs	(1,476,096)	(160,787)
Proceeds from sale of assets	30,718	2,948,452
Proceeds from refinancing of capital lease	45,388,493	-
Payment on defeasance of capital lease	(43,794,000)	-
Proceeds from bond sale	26,142,456	1,999,611
Net cash used for capital and related financing activities	<u>(6,877,924)</u>	<u>(12,265,114)</u>
Cash flows from investing activities:		
Purchases of investment securities	(5,815,187)	(11,285,260)
Proceeds from sale and maturities of investment securities	7,956,370	5,025,618
Interest payments received	389,220	630,445
Net cash (used for) provided by investing activities	<u>2,530,403</u>	<u>(5,629,197)</u>
Net increase in cash and cash equivalents	2,902,988	2,145,217
Cash and cash equivalents at beginning of year	<u>5,422,480</u>	<u>3,277,263</u>
Cash and cash equivalents at end of year	<u>\$ 8,325,468</u>	<u>5,422,480</u>

(Continued)

# REGIONAL TRANSIT AUTHORITY

## Statements of Cash Flows

For the years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (81,078,668)	(78,974,088)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation	17,415,105	17,196,574
Amortization of bond issue costs	323,514	318,859
Increase in allowance for doubtful accounts	10,342	103,555
(Increase) decrease in accounts receivable	(1,422,222)	5,611
Increase in prepaid assets	(168,341)	(141,307)
(Increase) decrease in inventory	(530,403)	441,363
Increase in accounts payable and accrued expenses	1,383,434	2,099,978
Increase in deferred revenue	(873,500)	(849,000)
Increase (decrease) in amounts due to TMSEL	(1,425,519)	2,580,270
Increase in the provision for legal and small claims liability	<u>3,328,852</u>	<u>9,585,318</u>
Net cash used in operating activities	\$ <u>(63,037,406)</u>	<u>(47,632,867)</u>

See accompanying notes to financial statements.



# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

### (1) Summary of Significant Accounting Policies

#### (a) *Organization and Reporting Entity*

The Regional Transit Authority (RTA) is an independent political subdivision of the State of Louisiana created in 1979 by Act 439 of the Louisiana Legislature in order to provide mass transportation within its jurisdiction, which comprises the Greater New Orleans area. Effective July 1, 1983 under a transfer agreement among the RTA, the City of New Orleans (the City) and New Orleans Public Service, Inc. (NOPSI), the RTA assumed responsibility for all mass transit operations in Orleans Parish and acquired transit-related assets and assumed certain transit-related liabilities of NOPSI and of the City through purchase, funded by federal and local government grants, and through contributions from the City. Subsequently, the RTA has also assumed responsibility for mass transit operations of the City of Kenner. The RTA's area of service presently comprises Orleans Parish and the City of Kenner in Jefferson Parish and may ultimately include future transit operations throughout the Greater New Orleans area.

The RTA is governed by an eight-member Board of Commissioners composed of appointees of the participating local governments within the RTA's jurisdiction. The Board of Commissioners establishes policies, approves the budget, controls appropriations and appoints an Executive Director responsible for administering all RTA operations and activities. At December 31, 2002 and 2001, one position and two positions, respectively, on the Commission were vacant.

The RTA holds title to substantially all assets and controls, or is entitled to, substantially all revenue and funds used to support its operations and is solely responsible for its fiscal affairs. The Board of Commissioners is authorized to issue bonds, incur short-term debt and levy taxes upon approval of the voters in one or more of the parishes or municipalities served by the RTA. The RTA conducts substantially all of its transit and related operations through Transit Management of Southeast Louisiana, Inc. (TMSEL), pursuant to the management contract between RTA, TMSEL and Metro New Orleans Transit (METRO). Effective December 17, 2002, the contract with METRO was terminated with no disruption in transit service. The contract provided for a payout of \$504,000 which is unaccrued pending final settlement. The labor, fringe benefits and other similar costs reflected in the statements of revenues, expenses and changes in net assets are TMSEL expenses which are reimbursed by RTA pursuant to the management contract.

The RTA is a stand-alone entity as defined by GASB 14, *The Financial Reporting Entity*. The RTA is neither fiscally dependent on any other local government nor does it provide specific financial benefits to or impose specific financial burdens on any other government. No other potential component units meet the criteria for inclusion in the financial statements of the RTA.

#### (b) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The accounting policies of the RTA conform to accounting principles generally accepted in the United States of America as applicable to governments. The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses, excluding depreciation and amortization, are recorded when a liability is incurred, regardless of the timing of related cash flows. The RTA has no government or fiduciary funds. The RTA uses fund accounting to report its financial position and results of operations. The RTA's accounts are organized into a single proprietary fund. The enterprise fund (a proprietary fund) is used to account for operations (a) that are operated in a manner similar to private business where the intent of the governing body is that the cost (expense, including depreciation) of providing goods and services to the general public is financed or

# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

recovered primarily through user charges or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred and/or changes in net assets is appropriate for capital maintenance.

The RTA's principal operating revenues are the fares charged to passengers for service.

The RTA applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict or contradict GASB pronouncements.

### (c) *Restricted Assets*

Certain assets, principally consisting of cash and investments, are segregated and classified as restricted assets, which may not be used except in accordance with state regulations or contractual terms, under certain conditions.

### (d) *Investments*

Investments are stated at fair value and generally consist of U.S. Government and Agency securities and time deposits. Fair value is based on quoted market prices. If quoted prices are not available, fair value is estimated based on similar securities.

### (e) *Inventories*

Inventories, principally repair parts and supplies, are stated at cost, which approximates market. Cost is determined by the average cost method.

### (f) *Property, Buildings and Equipment*

Property, buildings and equipment are recorded at cost. Depreciation and amortization is charged to expense over the estimated useful lives of the assets and is determined using the straight-line method. Expenditures for maintenance and repairs, which do not materially extend the useful life of the asset, are charged to expense as incurred. The estimated useful lives used in computing depreciation and amortization are:

Buildings	20 years
Buses and equipment	3-12 years
Streetcars, track system and related equipment	20-30 years
Furniture and fixtures	3-10 years
Leasehold improvements	3-5 years

### (g) *Federal and State Grants*

Federal and state grants are made available to the RTA for the acquisition of public transit facilities, planning studies, buses and other transit equipment, and lease maintenance services. Unrestricted operating grants and grants restricted as to purpose, but not contingent on the actual expenditures of funds, are recognized at that point in time when the right to the funds becomes irrevocable. Where the expenditure of funds is the prime factor for determining the eligibility for the grant proceeds, the grant is recognized at the time when the expense is incurred.



# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

**(h) *Compensated Absences***

RTA is obligated to reimburse TMSEL for vacation when earned by TMSEL employees, either in accordance with TMSEL's general personnel policy or under certain TMSEL union agreements. The total liability for accrued vacation at December 31, 2002 and 2001, included in current liabilities, was approximately \$2.9 million and \$2.7 million, respectively.

**(i) *Cash Flows***

For the purposes of the statements of cash flows, cash and cash equivalents include investments with a maturity of less than one year.

**(j) *Budgets and Budgetary Accounting***

In accordance with Act 186 of the Louisiana Legislature and under authority granted to the Board of Commissioners of the RTA within the Regional Transit Authority Act (Act 439), an annual budget of revenue, expenses and capital expenditures is prepared under the accrual basis of accounting, consistent with accounting principles generally accepted in the United States of America. The budget is adopted by resolution of the Board of Commissioners after public hearings are conducted and public input is received. The RTA, operating as an enterprise fund, utilizes the budget and related budgetary accounting to assure that: (1) service objectives are attained; (2) expenditures are properly controlled; and (3) adequate resources will be available to finance current operations, repay long-term liabilities and meet capital outlay requirements. A budget presentation is not required and has not been included in the financial statements.

**(k) *Bond Issuance Costs and Refundings***

Costs related to issuing bonds are capitalized and amortized based upon the methods used to approximate the interest method over the term of the bonds.

Effective with fiscal years in 1994 and thereafter, gains and losses associated with refundings and advance refundings are being deferred and amortized based upon the methods used to approximate the interest method over the life of the new bonds or the remaining term on any refunded bond, whichever is shorter.

**(l) *Claims and Judgments***

The RTA provides for losses resulting from claims and judgments, including anticipated incremental costs. A liability for such losses is reported when it is probable that a loss has occurred and the amount can be reasonably estimated. Actual losses may differ significantly from RTA's estimates. Incurred but not reported claims have been considered in determining the accrued liability.

**(m) *Deferred Revenue***

Revenue collected more than one year in advance for interior and exterior bus and streetcar advertising is deferred.

# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

### (n) Use of Estimates

Management of RTA has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

### (2) Cash and Investments

The RTA's cash and investments consisted of the following:

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>
Cash and money market	\$ 1,148,381	8,325,468	1,305,700	5,422,480
Investments, at fair value:				
U.S. Government Treasury				
and Agency securities	1,207,275	13,242,546	6,488,695	9,948,304
Certificates of deposit	-	351,450	-	348,136
	<u>1,207,275</u>	<u>13,593,996</u>	<u>6,488,695</u>	<u>10,296,440</u>
	<u>\$ 2,355,656</u>	<u>21,919,464</u>	<u>7,794,395</u>	<u>15,718,920</u>

Actual cash in banks and certificates of deposit as of December 31, 2002 and 2001, for restricted and unrestricted bank accounts, before outstanding checks and reconciling items, was \$4,578,700 and \$6,614,782, respectively. Of the total bank balances at December 31, 2002 and 2001, all amounts were covered by federal depository insurance (\$301,935 and \$301,932, respectively) or by collateral held in the RTA's name by its agent (\$5,468,388 and \$10,615,535 respectively). Actual cash in money markets accounts was \$8,090,578 and \$2,874,115, respectively, and is included in cash and money market above. These money market balances are uncategorized.

Investments are held in the name of the RTA by its agent and are classified as category 1 investments under GASB 3 requirements. Statutes authorize the RTA to invest in direct United States Treasury obligations; bonds, debentures, notes or other indebtedness issued or guaranteed by U.S. Government instrumentalities which are federally sponsored or federal agencies that are backed by the full faith and credit of the United States; short-term repurchase agreements; and time certificates of deposit at financial institutions, state banks and national banks having their principal offices in Louisiana.

As of December 31, 2002 and 2001, approximately \$1,207,000 and \$1,194,000, respectively, of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation to maintain RTA/TMSEL's self-insurance certificate.

# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

### (3) Accounts Receivable

Accounts receivable consist of the following as of December 31:

	<u>2002</u>	<u>2001</u>
Sales tax	\$ 5,510,285	9,226,798
Hotel/motel tax	1,011,778	951,747
Federal capital grants	24,409,987	6,608,434
State operating subsidy	173,237	237,931
Passenger (transpass and visitour)	946,994	669,482
Orleans Parish School Board	2,157,479	625,445
Kenner operating subsidy	102,630	37,578
Due from lease escrow	25,000	25,000
Other	56,859	509,235
	<u>34,394,249</u>	<u>18,891,650</u>
Less allowance for uncollectible amounts	<u>(429,336)</u>	<u>(418,994)</u>
	<u>\$ 33,964,913</u>	<u>18,472,656</u>

### (4) Property, Buildings and Equipment

A summary of changes in fixed assets follows:

	<u>January 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2002</u>
Land	\$ 6,988,812	-	-	6,988,812
Buildings	85,167,718	44,503	-	85,212,221
Equipment, primarily transportation vehicles	163,243,567	2,062,622	(868,768)	164,437,421
Furniture and fixtures	23,538,851	454,208	(322,537)	23,670,522
Construction in progress	32,839,780	49,698,188	-	82,537,968
	<u>311,778,728</u>	<u>52,259,521</u>	<u>(1,191,305)</u>	<u>362,846,944</u>
Accumulated depreciation and amortization	<u>(120,060,108)</u>	<u>(17,415,104)</u>	<u>958,771</u>	<u>(136,516,441)</u>
	<u>\$ 191,718,620</u>			<u>226,330,503</u>

# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

	<u>January 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2001</u>
Land	\$ 9,188,812	-	(2,200,000)	6,988,812
Buildings	85,713,595	6,498	(552,375)	85,167,718
Equipment, primarily transportation vehicles	160,819,255	4,094,331	(1,670,019)	163,243,567
Furniture and fixtures	22,846,809	5,102,400	(4,410,358)	23,538,851
Construction in progress	<u>17,705,625</u>	<u>15,347,241</u>	<u>(213,086)</u>	<u>32,839,780</u>
	296,274,096	<u>24,550,470</u>	<u>(9,045,838)</u>	311,778,728
Accumulated depreciation and amortization	<u>(108,285,889)</u>	<u>(17,196,574)</u>	<u>5,422,355</u>	<u>(120,060,108)</u>
	<u>\$ 187,988,207</u>			<u>191,718,620</u>

At December 31, 2002 and 2001, equipment includes transportation vehicles under capital lease with a net book value of \$26,969,729 and \$30,896,115, respectively. During 2002 and 2001, interest capitalized was \$719,897 and \$374,032, respectively. Construction in progress is composed of the following as of December 31, 2002:

Canal Street Corridor	\$ 73,717,233
Desire Corridor	5,740,612
Other	<u>3,080,123</u>
Total construction in progress	<u>\$ 82,537,968</u>

### (5) Long-term Debt

Long-term debt consisted of the following as of December 31:

	<u>2002</u>	<u>2001</u>
1998A Series, Sales Tax Refunding Bonds, interest rates between 6.8% and 8%, due in annual principal debt service requirements ranging from \$1,130,000 to \$2,815,000, final payment due December 2013	\$ 21,710,000	22,920,000
1991 Series, Sales Tax Revenue Bonds, interest rates between 5.5% and 6.5% on current interest term bonds, and approximate yields of 7% and 7.10% on capital appreciation bonds, with annual principal debt service requirements ranging from \$348,633 to \$1,500,000, final payment due December 2021	15,720,733	16,755,733
2000 Series, LCDA Revenue Bonds, variable interest rate of 3.12% as of December 31, 2002, due in annual principal debt service requirements ranging from \$155,100 to \$1,994,600, final payment due February 2025	<u>25,987,356</u>	<u>-</u>
Subtotal carry forward to next page	63,418,089	39,675,733

# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

	2002	2001
Subtotal carry forward from previous page	\$ 63,418,089	39,675,733
2000A Series, LCDA Revenue Bonds, variable interest rate of 2.88% as of December 31, 2002, due in annual principal debt service requirements ranging from \$32,000 to \$125,300, final payment due November 2029	1,947,111	1,979,111
	65,365,200	41,654,844
Plus unamortized premium	2,275,527	2,633,781
Less current maturities	3,065,100	2,277,000
Long-term debt less current maturities	\$ 64,575,627	42,011,625

### 1998A Bond Series

In September 1997, the RTA agreed to issue, not later than December 1, 1998, \$26,080,000 in Sales Tax Revenue Bonds, Series 1998A. The net proceeds of the 1998A Refunding Bonds of \$29,786,335 was used to repay the principal and call premium on the outstanding 1988 Bonds and the anticipated costs of issuance of \$827,339. The remaining \$2,357,396, representing the present value of the interest savings to the RTA, was released to RTA in December 1997 upon execution of the Forward Bond Placement agreement. A deferred premium of \$2,918,093 was likewise recorded in December 1997 and was amortized beginning in 1998 over the life of the Series 1998A Refunding Bonds.

The interest on the Series 1998A Refunding Bonds is due and payable on June 1 and December 1 of each year through December 2013. The Series 1998A Refunding Bonds are secured by a pledge and lien upon a portion of RTA's one cent sales revenue (one-half of one percent upon items and services subject to the sales tax). As a result of the 1997 effective date of this Forward Bond Placement Agreement, the 1988 bond debt service restricted assets had been released by RTA's trustee. Bond issue costs were deferred and are being amortized over the life of the 1998A Refunding Bonds. The unamortized premium related to the Series 1998A Refunding Bonds was \$2,275,527 and \$2,633,781 at December 31, 2002 and 2001, respectively.



# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

### 1991 Bond Series

On December 26, 1991, the RTA issued \$23,215,733 in Sales Tax Revenue Bonds, Series 1991. These bonds are to be repaid over 30 years. The net proceeds of \$22,968,624 (after original issue discount of \$103,661 and payment of \$143,448 in underwriting fees and costs) received by the RTA on the sale of the bonds were applied as follows: (a) \$19,193,382 was deposited in a reserve fund account designated for capital projects, including, but not limited to, the St. Charles facility renovation and restoration of streetcars used on the St. Charles Avenue Streetcar line, construction of maintenance facilities for the Riverfront streetcar line and the acquisition of buses; (b) \$1,513,528 was deposited in a reserve fund for payment of interest costs; (c) \$1,596,845 was deposited in a reserve fund account to satisfy the reserve fund requirement of the bonds; and (d) the remaining proceeds of \$664,869 were used toward the payment of issuance costs of the bonds. Bond issuance costs of \$624,197 were recorded in August 2000 upon the release of debt service reserves for the 1991 Bond Series. These costs will be amortized over the remaining life of the bonds.

The current interest and capital appreciation bonds are secured by a pledge and lien upon a portion of the RTA's sales tax revenue (one-half of one percent upon the items and services subject to the sales tax). The interest on the current interest bonds is due and payable on June 1 and December 1 of each year through December 1, 2004. The interest for the capital appreciation bonds is due and payable in series in 2012, 2015 and 2021. Bond issuance costs were deferred and are being amortized over the 30-year life of the sales tax bonds.

In accordance with the requirements of the bond indentures, the RTA maintains, with a designated trustee, certain restricted asset bond accounts. The RTA is in compliance with its bond covenants as of December 31, 2002 and 2001.

### 2000 Series and 2000A Series – LCDA Revenue Bonds

Under agreements with the Louisiana Local Government Environmental Facilities and Community Development Authority (LCDA), RTA may borrow up to \$65,820,000 in funds to finance the local match portion of the costs expected to be incurred in the construction of the Canal Street Corridor and Desire Street Corridor Projects. The funds are provided from a portion of the proceeds of a Master Indenture Agreement and the sale of revenue bonds by LCDA. For the 2000 Series, the amount drawn down under this agreement as of December 31, 2002 was \$26,142,456. The principal balance as of December 31, 2002 is \$25,987,356 of which \$626,100 is due in 2003. No amount was drawn down in 2001. For the 2000A Series, the amount drawn down under this agreement as of December 31, 2002 and 2001 was \$1,999,611. The principal balance as of December 31, 2002 is \$1,947,111 of which \$34,000 is due in 2003. Total bond issuance costs of \$160,787 were financed in 2001 and monthly payments are required. These costs will be amortized over the remaining life of the agreement. Subsequent to December 31, 2002, RTA drew down an additional \$7,910,072 under the 2000 Series and \$9,465,891 under the 2000A Series.

# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

### Debt Service Requirements

The following represents the debt service requirements for the bond issues as of December 31, 2002:

		<b>1991 and 1998A Bonds Principal</b>	<b>1991 and 1998A Bonds Interest</b>	<b>2000 and 2000A Bonds Principal</b>	<b>2000 and 2000A Bonds Interest</b>	<b>Total Principal</b>	<b>Total Interest</b>
2003	\$	2,405,000	2,233,313	660,100	858,197	3,065,10	3,091,510
2004		2,575,000	2,059,613	669,000	838,059	3,244,00	2,897,672
2005		2,760,000	1,873,417	708,500	816,717	3,468,50	2,690,134
2006		2,965,000	1,671,217	749,600	794,124	3,714,60	2,465,341
2007		3,180,000	1,453,818	793,900	770,203	3,973,90	2,224,021
2008-2012		14,420,806	8,751,745	4,727,500	3,439,903	19,148,30	12,191,648
2013-2017		6,566,392	16,606,435	6,289,400	2,591,769	12,855,79	19,198,204
2018-2022		2,558,535	15,983,002	8,367,200	1,463,329	10,925,73	17,446,331
2023-2027		-	-	4,723,056	227,609	4,723,05	227,609
2028-2029		-	-	246,211	7,209	246,21	7,209
	\$	<u>37,430,733</u>	<u>50,632,560</u>	<u>27,934,467</u>	<u>11,807,119</u>	<u>65,365,20</u>	<u>62,439,679</u>

### Changes in long-term debt

Long-term debt activity for the year ended December 31, 2002 and 2001 are as follows:

	<b>January 1, 2002</b>	<b>Additions</b>	<b>Payments</b>	<b>December 31, 2002</b>	<b>Due Within One Year</b>
1998A Series, Sales Tax Refunding Bonds	\$ 22,920,000	-	(1,210,000)	21,710,000	1,305,000
1991 Series, Sales Tax Revenue Bonds	16,755,733	-	(1,035,000)	15,720,733	1,100,000
2000 Series, LCDA Revenue Bonds	-	26,142,456	(155,100)	25,987,356	626,100
2000A Series, LCDA Revenue Bonds	<u>1,979,111</u>	<u>-</u>	<u>(32,000)</u>	<u>1,947,111</u>	<u>34,000</u>
	<u>\$ 41,654,844</u>	<u>26,142,456</u>	<u>(2,432,100)</u>	<u>65,365,200</u>	<u>3,065,100</u>



# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

	January 1, 2001	Additions	Payments	December 31, 2001	Due Within One Year
1998A Series, Sales Tax Refunding Bonds	\$ 24,050,000	-	(1,130,000)	22,920,000	1,210,000
1991 Series, Sales Tax Revenue Bonds	17,730,733	-	(975,000)	16,755,733	1,035,000
2000A Series, LCDA Revenue Bonds	-	1,999,611	(20,500)	1,979,111	32,000
	<u>41,780,733</u>	<u>1,999,611</u>	<u>(2,125,500)</u>	<u>41,654,844</u>	<u>2,277,000</u>

### (6) TMSEL Pension Plan

The RTA provides for the pension expense of TMSEL employees pursuant to the management contract. Effective August 19, 1986, TMSEL received from the Internal Revenue Service a favorable letter of determination and approval of its defined benefit retirement income plan (the plan) covering substantially all TMSEL employees. On October 15, 1986, the RTA completed the transfer of pension fund assets from NOPSI to TMSEL, as called for under the terms of the Transfer Agreement between NOPSI and the RTA. Net pension plan assets transferred totaled \$35,059,639 as of the actuarial valuation, dated June 30, 1986, nearest the date of transfer.

All TMSEL and former NOPSI employees over the age of 21 (age 25, if hired prior to January 1, 1985) are eligible to participate in the Plan. Benefits vest after five years of benefit service. Those members who retire at age 65 are entitled to annual retirement benefits for life in the amount equal to 1.5 (multiplier) percent (unless otherwise specified in the plan) of their five year average of compensation times years of benefit service. The Plan also provides early retirement, postponed retirement, and death benefits.

Members of Amalgamated Transit Union (ATU) Division 1560, effective February 2, 1990, received a "30 and Out" Pension Service. Effective January 1, 1998, the TMSEL Pension Plan was amended to increase the multiplier from 1.6% to 1.8% and to change the participation eligible age from 25 to 21 for those employees hired prior to January 1, 1985. Effective January 1, 1999, the multiplier was increased from 1.8% to 1.9%. Prior to February 2, 1990, members of ATU Division 1560 contributed 0.77% of their weekly earnings to the Plan. To Fund the "30 and Out" pension service, the members of ATU Division 1560 began contributing an additional 2.23%. To fund the increase in the multiplier from 1.6% to 1.8% and to change the participation eligible age from 25 to 21, members of ATU Division 1560 contributed an additional 0.77%. To fund the increase in the multiplier from 1.8% to 1.9%, members of ATU Division 1560 began contributing an additional 1.38%. Effective January 1, 2001, to fund twenty percent (20%) of the increase in the multiplier from 1.5% to 1.8% and to change the participation eligible age from 25 to 21 and one hundred percent (100%) of the increase in multiplier from 1.8% to 1.9% for members of ATU 1611, members of ATU 1560 began contributing an additional 0.03%.

## REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements

December 31, 2002 and 2001

Effective April 18, 1996, members of Amalgamated Transit Union (ATU) 1611 received a "30 and Out" Pension Service and contributed 2.45% of gross wages. On January 18, 2001, the Plan was amended to increase the multiplier from 1.5% to 1.8% for members of ATU 1611, and to change the participation eligibility age from 25 to 21 for those employees hired prior to January 1, 1985, effective January 1, 2001 with TMSEL paying 80% of the cost and the members of the Unions (ATU Division 1560 and ATU Division 1611) paying 20% of the cost. The Plan was further amended increasing the multiplier from 1.8% to 1.9% with the members of Unions paying 100% of the cost. (These changes were the result of the Collective Bargaining Agreement, whereas the ATU Division 1611's membership was combined with ATU Division 1560).

Effective October 1, 2001, ATU Division 1611 merged with ATU Division 1560 into the surviving division, ATU Division 1560. On November 15, 2001, the Plan was amended to increase the multiplier from 1.9% to 2.0% effective retroactively to October 1, 2001 for members of this surviving division. The Plan was also amended to increase the multiplier from 2.0% to 2.1% effective July 1, 2003 for members of ATU Division 1560. As of January 1, 2001, the total amount the Union contributes to the Plan is 5.18% of total salary.

Members of International Brotherhood of Electrical Workers (IBEW) Local 1700-4, effective March 21, 1996, received a "30 and Out" Pension Service and contribute 2.45% of gross wages. Effective July 1, 1998, the Plan was amended, changing the participation age in the Plan from 25 to 21 for those employees hired prior to January 1, 1985. To fund this benefit, the Members of IBEW Local 1700-4 contribute 1.27% of gross wages. Since July 1, 1998, the total amount the Members of IBEW Local 1700-4 contribute to the Plan is 3.72%, which represents the contribution of 2.45% of gross wages for the "30 and Out" Pension Service, plus the 1.27% of gross wages for changing the participation age in the Plan from 25 to 21. Effective January 18, 2001, the Plan was amended to increase the multiplier from 1.6% to 1.8%, with TMSEL paying 80% of the cost and the members of IBEW Local 1700-4 paying 20% of the cost effective February 28, 2001. The Plan was further amended to increase the multiplier from 1.8% to 1.9% with members of IBEW Local 1700-4 paying 100% of the cost. To fund this benefit, members of IBEW Local 1700-4 contribute an additional 1.83% of gross wages. On November 15, 2001, the Plan was also amended to increase the multiplier from 1.9% to 2.0% effective January 1, 2002. The Plan was further amended to increase the multiplier from 2.0% to 2.1% effective July 1, 2003. As of November 15, 2001, the total amount members of IBEW Local 1700-4 contribute to the Plan is 5.55% of total salary, which represents the 2.45% of gross wages for the 30 & Out Pension Service, the 1.27% of gross wages for changing the participation age in the plan from 25 to 21, and the 1.83% of gross wages for the increase in the multiplier from 1.8% to 1.9%.

On March 13, 2003, the Internal Revenue Service issued a favorable determination letter for the Plan granting approval of a new optional form of payment. The Reduced Annuity Lump Sum (RAWLS) provides a portion of the retirement benefit in a lump sum, plus a reduced monthly benefit. Members of ATU Division 1560 and IBEW 1700-4 are eligible for this form of benefit which is effective retroactively to January 1, 2002.

# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

The following table sets forth the plan's funded status and amounts recognized in the Authority's statements of net assets due to TMSEL as of December 31:

	<u>2002</u>	<u>2001</u>
Actuarial present value of benefit obligation:		
Vested benefit obligation	\$ 118,247,028	105,639,243
Nonvested benefit obligation	<u>15,942,392</u>	<u>11,036,087</u>
Accumulated benefit obligation	134,189,420	116,675,330
Projected future compensation levels effect	<u>24,725,791</u>	<u>17,969,755</u>
Projected benefit obligation for service rendered to date	158,915,211	134,645,085
Plan assets at fair value	<u>95,719,124</u>	<u>100,891,000</u>
Deficiency in plan assets over projected benefit obligation	(63,196,087)	(33,754,085)
Unrecognized prior service cost	12,023,386	10,444,933
Unrecognized net loss from past experience different from that assumed	(294,750)	(378,725)
Unrecognized net liability	<u>42,705,710</u>	<u>17,436,559</u>
Accrued pension cost	\$ <u>(8,761,741)</u>	<u>(6,251,318)</u>

Net periodic pension cost included the following components for the years ended December 31 and are as follows:

	<u>2002</u>	<u>2001</u>
Service cost - benefits earned during the period	\$ 2,488,745	2,366,619
Interest cost on projected benefit Obligation	10,060,701	9,070,770
Actual return on plan assets	5,538,370	5,073,340
Net amortization and deferral	<u>(11,346,960)</u>	<u>(12,298,632)</u>
Net periodic pension cost prior to change in estimate	\$ <u>6,740,856</u>	<u>4,212,097</u>

The most recent projected pension benefit obligation was computed based on the actuarial valuation performed as of January 1, 2002. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.00% per year compounded annually, (b) a discount rate of 7.25%, and (c) projected salary increases including an inflation component of 3.25%.

TMSEL funds actuarially determined pension costs when accrued. Any unfunded actuarial accrued liability is amortized over twenty-five years. Pension expense, which is included in labor and fringe benefits expense, was \$6,339,725 and \$4,716,603 in 2002 and 2001, respectively. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the projected pension benefit obligation as described above.

## REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements

December 31, 2002 and 2001

On May 7, 2003, the Internal Revenue Service approved a change in funding method for the TMSEL Retirement Plan which is effective retroactively to January 1, 2002. Under the new funding method, the actuarial value of assets is determined using a method with a smoothing period of five years.

As of December 31, 2002 and 2001, the ERISA funding requirement of approximately \$6,568,693 and \$4,036,000 is included in amounts due to TMSEL on the statements of net assets.

#### (7) Other Post Employment Retirement Benefits

##### NOPSI Retiree Employees

As part of the Transfer Agreement among the RTA, NOPSI and the City, the RTA, through TMSEL, began providing benefits for health care and life insurance to retired and disabled transit employees of NOPSI. In addition, the RTA assumed liability for benefits payable to those employees who retired or became disabled prior to July 1, 1983. On July 1, 1983, the actuarially determined present value of such benefits was approximately \$24,000,000. A preliminary actuarial valuation, performed in 1991, indicated that the present value of future benefits, as of December 31, 1991, was \$20,500,000. In consideration for the assumption of liability under the terms of the Employee and Retiree Pension Benefits Agreement (the Agreement), NOPSI and the City of New Orleans agreed to reimburse the RTA for future health care and life insurance claims of retired and disabled transit employees of NOPSI in amounts of \$13,000,000 and \$11,000,000, respectively, plus an interest factor of 9%.

Also, NOPSI paid \$7,330,000 to the RTA for indemnification against any unforeseen losses arising from the transaction, and this amount has been reflected by the RTA as employee benefits payable on behalf of TMSEL and former NOPSI employees.

##### TMSEL Retirees

The RTA, pursuant to the TMSEL management contract, underwrites benefits for health care and life insurance to TMSEL retirees who were NOPSI transit employees prior to July 1, 1983. These employees retain full retirement benefits under the plan. All other employees of TMSEL are not eligible to receive post-retirement health and life insurance under the plan benefits. The health care plan is self-insured and is financed on a pay-as-you-go-basis. During 2002 and 2001, total TMSEL expense relating to the above plan for retirees was \$1,225,636 and \$1,733,698, respectively. As of December 31, 2002, no actuarial evaluation of the plan has been performed.

#### (8) Commitments and Contingencies

##### (a) *Operating Leases*

The RTA is obligated under various operating leases for office and storage space. The operating leases contain renewal options for varying periods at equal or increased annual rentals. Future operating lease payments for the remaining lives of the leases following December 31, 2002 are as follows:

2003	\$ 160,692
2004	160,692
2005	78,163



# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

Total lease and rental payments for the years ended December 31, 2002 and 2001 were \$198,937 and \$213,159, respectively.

### (b) Capital Leases

The RTA has entered into a lease agreement to acquire 175 buses. As of December 31, 1999, the RTA has received the 175 buses. The term of the lease is 12 years. The lease is recorded at the present value of the future minimum lease payments as of the date of inception. The lease is payable over 12 years, with the last payment due on May 1, 2010. Semiannual payments are \$2,999,462 with a balloon payment of \$7,554,336 due on May 1, 2010. The RTA is reimbursed for 80% of its lease payments by federal grants from the Federal Transit Administration. The reimbursements are included as federal subsidy revenue to the extent of 80% of the interest expense on the capitalized lease; the remainder is credited to capital contributions.

RTA issued \$43,205,000 of certificates of participation with stated interest rates ranging from 3.0% to 5.0% to advance refund the capital lease previously discussed. The amount of the certificates is net of premium of \$2,183,493, which is being amortized over the life of the new debt. The lease is due May 1, 2010, however; it can be prepaid beginning May 1, 2005. The certificates of participation were issued at par and after paying issuance costs of \$1,594,493, the net proceeds were \$43,794,000. The net proceeds from the issuance of the certificates of participation were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the lease can be prepaid on May 1, 2005. The advance refunding met the requirements of an in-substance debt defeasance and the lease was removed from the RTA's financial statements. The reacquisition price exceeded the net carrying amount of the old lease by \$4,844,338. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 8 years by \$605,529 and resulted in an economic gain of \$547,089.

The following is a schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments as of December 31, 2002:

	Present value of minimum lease payments	Interest	Total minimum lease payments
2003	\$ 3,795,000	1,482,983	5,277,983
2004	4,905,000	1,675,633	6,580,633
2005	5,100,000	1,555,250	6,655,250
2006	5,355,000	1,291,750	6,646,750
2007	5,625,000	818,467	6,443,467
2008-2010	18,425,000	1,155,567	19,580,567
	43,205,000	7,979,650	51,184,650
Plus unamortized premium	1,918,841		
Less unamortized refunding loss	4,257,176		
Less current portion	3,795,000		
Long-term portion	\$ 37,071,665		

## REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements

December 31, 2002 and 2001

**(c) Contingencies**

The RTA receives financial assistance directly from Federal agencies, which is subject to audit and final acceptance by these agencies. In the opinion of management, amounts that might be subject to disallowance upon final audit, if any, would not have a material effect on the RTA's financial position.

**(d) Grant Commitments**

As of December 31, 2002 and 2001, the RTA is committed to funding local matching requirements under grants for which a contractual obligation existed at the end of each year. The outstanding federal share of grants at December 31, 2002 and 2001 totals approximately \$143,200,000 and \$77,400,000, respectively, and requires commitments of local matching funds totaling approximately \$36,000,000 and \$19,300,000, respectively. These amounts include amounts outstanding from the full funding grant agreement for the Canal Street Streetcar Line, which was subsequently approved in April 2003.

**(9) Self-insurance and Legal Claims**

The RTA is, from time to time, involved in lawsuits arising in the ordinary course of its business. Management provides for a provision for claims when such amounts are known or can be estimated. The RTA is also exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omissions, injuries to TMSEL employees and natural disasters. The RTA is self-insured for general liability claims up to \$1,000,000 prior to April 1, 1996, \$2,000,000 through December 31, 2001, and \$500,000 thereafter; commercial insurance for general liability covers annual claims in excess of up to \$14,000,000 prior to April 1, 1996 and \$10,000,000 thereafter. Settled claims have not exceeded this commercial coverage in any of the past four fiscal years. Pursuant to the TMSEL management contract, RTA reimburses TMSEL for its employees' workers' compensation and health care claims. Claim expenses and liabilities are reported when it is probable that the loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

At December 31, 2002 and 2001, \$31,298,843 and \$27,969,991, respectively, of accrued general liability and small claim estimates were recorded to cover such claims. The long-term portion of these accruals at December 31, 2002 and 2001, were \$26,414,160 and \$23,769,991, respectively. The accruals, which are based upon experience with previous claims, the advice of counsel, and actuarial evaluation are, in the opinion of management, sufficient to provide for all probable and reasonably estimable claims liabilities at December 31, 2002 and 2001.

Changes in legal and small claims liability during the years ended December 31 were as follows:

	<u>Beginning of year liability</u>	<u>Current year claims and changes in estimates</u>	<u>Claim payments</u>	<u>Balance at year end</u>
2000	\$ 19,230,716	5,053,332	(5,899,375)	18,384,673
2001	\$ 18,384,673	12,363,697	(2,778,379)	27,969,991
2002	\$ 27,969,991	8,331,160	(5,002,308)	31,298,843

## REGIONAL TRANSIT AUTHORITY

### Notes to Financial Statements

December 31, 2002 and 2001

TMSEL's self-insured reserves for workers' compensation and health benefits are included in amounts due to TMSEL on the statements of net assets and total \$2,210,728 and \$4,421,460 as of December 31, 2002 and 2001, respectively. As of December 31, 2002 and 2001, approximately \$1,207,000 and \$1,194,000, respectively, of restricted assets was pledged as collateral to the Louisiana Office of Workman's Compensation to maintain RTA/TMSEL's self-insurance certificate.

#### (10) Management Fees and Other Reimbursed Expenditures

For the first nine months of 2001, the RTA, METRO, and TMSEL were operating under a five-year contract dated November 1, 1997 under which METRO was to provide management and supervision of the transit system's operations, and TMSEL was to operate the system. A new contract among the RTA, METRO, and TMSEL provided for similar services beginning October 1, 2001. Management fees, reimbursement of expenses and expenses, including professional consulting services, expensed under these contracts with METRO for the years ended December 31, 2002 and 2001 were \$758,874 and \$1,210,436, respectively. A portion of the 2002 and 2001 expenditures related to capital items are capitalized. On December 17, 2002, the contract with METRO was terminated, but the contract as to TMSEL continued with no disruption in transit service. The October 1, 2001 METRO management services agreement provided for a payout to METRO of \$504,000 which is disputed by RTA and is unaccrued pending final settlement. In addition, the RTA is disputing \$675,000 in charges by METRO, which is also unaccrued. During essentially all of the time during which the RTA had a contract with METRO and TMSEL, METRO was the sole shareholder of TMSEL. On December 16, 2002, the RTA designated Interregional Transit, Inc., a Louisiana non-profit corporation, to purchase the stock of TMSEL under a 1990 Buy-Out Agreement between METRO and RTA for the amount of \$25.

#### (11) Related Parties

The RTA has a standing agreement with the City of New Orleans to provide mutually beneficial services (interagency agreement). The RTA offset \$1,200,000 in police and other services provided by the City against state parish transportation fund proceeds appropriated by the State of Louisiana in 2002 and 2001.

The members of the Board of Commissioners who were paid a per diem for the attendance at board meetings in calendar years 2002 and 2001 and were also reimbursed for out-of-pocket expenses resulting from their participation in RTA activities as listed below.

The amounts received by each commissioner for the years ended December 31, 2002 and 2001 were as follows:

	<u>Per Diem</u>	<u>Expense Reimbursement</u>	<u>Total</u>
<b>2002:</b>			
Daniel Alfortish	\$ 900	-	900
Charlotte Burnell	900	-	900
Walter Campbell	225	-	225
Barbara Major	300	-	300
Earline Roth	975	-	975
Dana Pecorara	675	-	675
James Reiss, Jr.	-	-	-
Robert Tucker	-	-	-
	<u>\$ 3,975</u>	<u>-</u>	<u>3,975</u>



# REGIONAL TRANSIT AUTHORITY

## Notes to Financial Statements

December 31, 2002 and 2001

	<u>Per Diem</u>	<u>Expense Reimbursement</u>	<u>Total</u>
<b>2001:</b>			
Daniel Alfortish	\$ 900	-	900
Charlotte Burnell	900	2,291	3,191
Ronald Gardner	600	2,941	3,541
Earline Roth	900	2,441	3,341
Dana Pecorara	675	2,006	2,681
Robert Tucker	-	-	-
	<u>\$ 3,975</u>	<u>9,679</u>	<u>13,654</u>

### (12) Rate Increase and Memorandum of Understanding

Effective September 19, 1999, the RTA and the City Council of the City of New Orleans entered into a Memorandum of Understanding whereby the Council granted a \$.25 rate increase in the basic fares of the RTA and the RTA implemented a service and cost reduction plan. During 2000, the rate increase became permanent. As of December 31, 2002, the base fare for buses and streetcars is \$1.25 per one-way ride.

# REGIONAL TRANSIT AUTHORITY

## Schedule of Changes in Restricted Asset Bond Accounts

For the years ended December 31, 2002 and 2001

The following summarizes the activity in the 1998 Series bond trustee accounts:

	Sales Tax Bond	Sales Tax Capital	Sales Tax Contingency	Sales Facility	Other Accounts	Total
Beginning balance - January 1, 2001	\$ 1,856	283,121	6,299	2,543	388	294,207
Cash receipts:						
Investment income (loss)	73	37,686	95	99	-	37,953
Transfer for principal and interest	-	3,041,706	-	-	-	3,041,706
Total cash receipts	73	3,079,392	95	99	-	3,079,659
Cash disbursements:						
Principal and interest payments	-	(3,042,103)	-	-	-	(3,042,103)
Expense payments	(10)	(5,682)	(6,394)	(13)	-	(12,099)
Total disbursements	(10)	(3,047,785)	(6,394)	(13)	-	(3,054,202)
Beginning balance - January 1, 2002	1,919	314,728	-	2,629	388	319,664
Cash receipts:						
Investment income (loss)	15	14,685	-	21	-	14,721
Transfer for principal and interest	-	2,971,352	-	-	-	2,971,352
Total cash receipts	15	2,986,037	-	21	-	2,986,073
Cash disbursements:						
Principal and interest payments	-	(3,037,350)	-	-	-	(3,037,350)
Transfer for debt service	-	-	-	-	(388)	(388)
Expense payments	(1,934)	(5,380)	-	(2,650)	-	(9,964)
Total disbursements	(1,934)	(3,042,730)	-	(2,650)	(388)	(3,047,702)
Ending balance - December 31, 2002	\$ -	258,035	-	-	-	258,035

(Continued)

# REGIONAL TRANSIT AUTHORITY

## Schedule of Changes in Restricted Asset Bond Accounts

For the years ended December 31, 2002 and 2001

The following summarizes the activity in the 1991 Series bond trustee accounts:

	Capital Projects and Contingency	Capital	Debt Service	Reserve	Total
Beginning balance - January 1, 2001	\$ 604,174	120,356	296,795	4,834	1,026,159
Cash receipts:					
Transfer for principal and interest	-	-	1,620,667	-	1,620,667
Investment income	27,341	4,543	28,277	189	60,350
Total cash receipts	27,341	4,543	1,648,944	189	1,681,017
Cash disbursements:					
Transfer for debt service	(88,531)	(12,900)	(1,624,843)	(25)	(1,726,299)
Total disbursements	(88,531)	(12,900)	(1,624,843)	(25)	(1,726,299)
Beginning balance - January 1, 2002	542,984	111,999	320,896	4,998	980,877
Cash receipts:					
Transfer for principal and interest	415,328	-	1,464,068	-	1,879,396
Gain/Loss	-	(5,957)	-	(13)	(5,970)
Investment income	6,577	1,560	10,519	40	18,696
Total cash receipts	421,905	(4,397)	1,474,587	27	1,892,122
Cash disbursements:					
Transfer for debt service	(544,085)	(2,469)	(1,654,930)	(5,025)	(2,206,509)
Expense payments	(2,244)	(539)	(3,803)	-	(6,586)
Total disbursements	(546,329)	(3,008)	(1,658,733)	(5,025)	(2,213,095)
Ending balance - December 31, 2002	\$ 418,560	104,594	136,750	-	659,904

See accompanying independent auditors' report.

**REGIONAL TRANSIT AUTHORITY**

Single Audit Reports

December 31, 2002

**REGIONAL TRANSIT AUTHORITY**  
**New Orleans, Louisiana**

Single Audit Reports

December 31, 2002

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## Postlethwaite & Netterville

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### **REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Commissioners  
Regional Transit Authority:

We have audited the financial statements of the Regional Transit Authority (the RTA) as of and for the year ended December 31, 2002, and have issued our report thereon dated June 13, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the RTA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the RTA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the RTA in a separate letter dated June 13, 2003.

This report is intended solely for the information of the RTA, the RTA's management, the State of Louisiana, the Legislative Auditor's Office, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Postlethwaite & Peterson*

June 13, 2003





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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To the Board of Commissioners  
Regional Transit Authority:

Compliance

We have audited the compliance of the Regional Transit Authority (the RTA) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2002. The RTA's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the RTA's management. Our responsibility is to express an opinion on the RTA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the RTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the RTA's compliance with those requirements.

In our opinion, the RTA complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 02-1, 02-2, 02-3, and 02-4.

### Internal Control Over Compliance

The management of the RTA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the RTA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the RTA's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 02-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the RTA as of and for the year ended December 31, 2002, and have issued our report thereon dated June 13, 2003. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of the RTA, the RTA's management, the State of Louisiana, the Legislative Auditor's Office, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Postlethwaite & Tetterville*

June 13, 2003

**REGIONAL TRANSIT AUTHORITY**  
**New Orleans, Louisiana**

Schedule of Expenditures of Federal Awards

For the year ended December 31, 2002

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Federal Transit Administration – Federal Transit cluster:		
Capital Investment Grants	20.500	\$ 39,318,390
Formula Grants	20.507	<u>10,075,973</u>
Total Federal Awards		<u>\$ 49,394,363</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**REGIONAL TRANSIT AUTHORITY**  
**New Orleans, Louisiana**

Notes to Schedule of Expenditures of Federal Awards

December 31, 2002

**(1) General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of the Regional Transit Authority (RTA). RTA's reporting entity is defined in note 1 to the financial statements for the year ended December 31, 2002. All federal awards received from federal agencies are included on the schedule.

**(2) Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in note 1 to RTA's financial statements for the year ended December 31, 2002.

**(3) Relationship to Financial Statements**

Federal awards are included in statement of revenues, expenses and changes in net assets as follows:

Nonoperating revenues (expenses):

Government operating grants:

Federal subsidy	\$11,752,040
Planning and technical study grants	595,064
Capital contributions	<u>37,047,259</u>
	<u>\$49,394,363</u>

**REGIONAL TRANSIT AUTHORITY**  
**New Orleans, Louisiana**

Schedule of Findings and Questioned Costs

Year ended December 31, 2002

(1) Summary of Auditors' Results

- (a) The type of report issued on the basic financial statements: unqualified opinion
- (b) Reportable conditions in internal control were disclosed by the audit of the financial statements: none reported; Material weaknesses: no
- (c) Noncompliance which is material to the financial statements: no
- (d) Reportable conditions in internal control over major programs: yes; Material weaknesses: no
- (e) The type of report issued on compliance for major programs: unqualified opinion
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: yes
- (g) Major program:

Federal Transit Administration – Federal  
Transit cluster:

Capital Investment Grants	20.500
Formula Grants	20.507

- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$1,481,831
  - (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: no
- (2) Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards*: None
- (3) Findings and Questioned Costs relating to Federal Awards: Listed as follows.

**INSTANCES OF NONCOMPLIANCE**

**02-1 DAVIS-BACON CONTRACTOR CERTIFICATIONS**

*Condition:* Of the eight (8) contractor payroll periods sampled by the Internal Audit department for compliance with the Davis-Bacon Act, one contractor payroll certification submitted did not include the payroll supervisor's signature. In addition, discrepancies were noted in (1) the positions of employees sampled to supporting documentation provided to RTA by the contractor and (2) prevailing wages paid to contractor employees.

**REGIONAL TRANSIT AUTHORITY**  
**New Orleans, Louisiana**

Schedule of Findings and Questioned Costs, Continued

*Criteria:* As required by the Davis-Bacon Act and DOL regulations (29 CFR sections 5.5, 5.6 and 5.16), the contractor should submit weekly, for each week in which any contract work is performed, a copy of the payroll and statement of compliance (certified payrolls) and should pay prevailing wages except in apprenticeship situations.

*Effect:* The contractor violated the requirements of the Davis-Bacon Act and DOL regulations.

*Cause:* The payroll supervisor for the contractor did not sign the contractor payroll certification, position changes were not properly communicated by the contractor and wages paid do not agree with prevailing wage schedule.

*Recommendation:* Provisions should be developed to hold contractors accountable for compliance.

*RTA Response:* The Internal Audit Department will work with the Capital Improvement and Procurement departments to determine which department will be responsible to monitor contractor(s) compliance with the Davis-Bacon Provision, and how often the provision should be tested for compliance.

**02-2 LIABILITY FOR DISPOSITION OF DESTROYED BUSES**

*Condition:* Two buses destroyed in 2000 which were purchased with Federal funds were not disposed of on the general ledger, and the related amount due to the Federal Transit Administration was not recorded as a liability, until December 2002.

*Criteria:* The Federal Transit Administration Master Agreement, Section 19(g)(2)(c) requires that a recipient remit the Federal interest in the fair market value of equipment involved in a fire casualty or invest in an amount equal to the remaining Federal interest in like-kind equipment.

*Effect:* The RTA did not timely record the disposition and associated liability of the two buses.

*Cause:* A delay in RTA's final determination regarding to rebuild or replace the buses occurred.

*Recommendation:* RTA's Accounting Department should establish the liability for the Federal Transit Administration's share of any equipment destroyed or disposed of immediately after it becomes aware of such circumstances

*RTA Response:* The unrecorded liability prior to December 2002 was the result of executive management's unclear decision to purchase replacement buses. The RTA Board of Commissioners awarded a contract to Orion Bus Industries in March 2003 to purchase replacement buses. Three buses have been ordered and will take approximately seventy weeks before delivery. FTA will not be receiving a reimbursement and the liability will offset the expenses incurred toward the purchase of the replacement buses.



**REGIONAL TRANSIT AUTHORITY**  
**New Orleans, Louisiana**

Schedule of Findings and Questioned Costs, Continued

**02-3 PROPERTY LOCATIONS AND TAGGING**

*Condition:* Of the thirty-three (33) items sampled by the Internal Audit Department for physical existence and appropriate safeguarding and maintenance, three (3) items could not be located, the location where six (6) items were found did not agree to the property ledger, six (6) items found could not be traced to the property ledger, and nineteen (19) items were not properly tagged or tag numbers did not agree to the property ledger. In addition, the results of the physical observation taken in 2001 have not been incorporated into property records.

*Criteria:* OMB Circular A-102 Common Rule requires an appropriate control system shall be used to safeguard equipment.

*Effect:* RTA cannot ensure that its equipment is appropriately safeguarded.

*Cause:* While the RTA has procedures for equipment tagging and recording on the property ledger, the procedures were not effective for the items tested.

*Recommendation:* The Accounting Department should ensure that (1) all items acquired have been appropriately tagged and (2) adjustments as a result of a physical inventory are made and followed-up timely.

*RTA Response:* Subsequent to the sampling performed by Internal Audit, the items that could not be confirmed have since been located. Also, the location information and description was corrected for the items that could not be traced and now the physical location matches the property ledger. Finally, the items that were not properly tagged or the tag number did not agree to the property ledger have since been corrected.

**02-4 FINANCIAL STATUS REPORTS**

*Condition:* Of the three Financial Status Reports traced to supporting documentation, two of the amounts on one report did not agree to supporting documentation due to a clerical input error that we detected by management. In addition, of the eight (8) requests for funds tested, two charges were underreported due to a clerical error in a calculation that was not detected by management.

*Criteria:* Reports should agree with accounting records and back-up support.

*Effect:* Reports may be filed incorrectly and an incorrect of reimbursement could be received.

*Cause:* While the RTA has procedures for verifying the accuracy of reports prior to submission for reimbursement, the procedures were not effective for the reports selected.

*Recommendation:* Manual calculations should be automated to the extent practical to reduce level of errors; procedures should be reassessed and modified to minimize opportunity for error.

*RTA Response:* Grants Administration concurs with this finding that due to a clerical error, the amounts reported in the first quarter did not agree with the supporting documentation. The errors detected by management have been addressed in 2003 reimbursement reports.

**REGIONAL TRANSIT AUTHORITY**  
**New Orleans, Louisiana**

Schedule of Findings and Questioned Costs, Continued

**REPORTABLE CONDITION IN INTERNAL CONTROL OVER MAJOR PROGRAM**

**02-5 GRANT PAYROLL**

*Condition:* Of the forty grant payroll charges traced to supporting timesheets, three of the charges did not agree to the timesheets due to clerical error.

*Criteria:* As required by OMB Circular A-87, charges to Federal awards should be correctly charged as to amount.

*Effect:* The FTA was undercharged for three payroll charges.

*Cause:* There were clerical errors in coding the charges.

*Recommendation:* Personnel performing the coding of timesheets should be reminded of the importance of the accuracy of the coding.

*RTA Response:* The grant payroll charges were properly coded on the timesheet by the user department, however a keypunch error was made by payroll personnel during input. The editing process will be reviewed to assure that the personnel editing the information can easily identify the error before posting.

**OTHER REPORTS**

RTA received a report dated June 2002 from the Federal Transit Administration regarding a compliance review of the Disadvantaged Business Enterprise Program. This report noted several deficiencies and required corrective actions. RTA has addressed this report.

RTA received a report dated December 13, 2002 from the Federal Transit Administration regarding a Financial Management Oversight Review of the effectiveness of internal control over RTA's financial management system. This report noted several findings and recommendations. RTA is in the process of addressing this report.

RTA received a report dated March 17, 2003 from the Federal Transit Administration regarding a Procurement Systems Review. This report noted several deficiencies and required corrective actions. RTA is in the process of addressing this report.

**REGIONAL TRANSIT AUTHORITY**  
**New Orleans, Louisiana**

Summary Schedule of Prior Audit Findings

**Finding 01-1:**

*Condition:* The RTA did conduct the required annual physical inventory during 2001, however, the results were not reconciled with equipment records.

*Current Status:* In progress. The Accounting Department is in the final stages of reconciling the equipment records to physical inventory. There are only a few items to identify and reconcile. This process will be completed by the end of the second quarter, 2003.

**Finding 01-2:**

*Condition:* Of the four Financial Status Reports traced to supporting documentation, one of the amounts on one report did not agree to supporting documentation due to a clerical input error.

*Current Status:* Resolved

**Finding 01-3:**

*Condition:* The RTA did not prepare the indirect cost plans for 1998, 1999, and 2000 until December 2001, which were then submitted to the FTA.

*Current Status:* Resolved

**Finding 01-4:**

*Condition:* While the provisions are included in construction contracts for Davis-Bacon prevailing wages and for reporting by contractors, the RTA does not test compliance with the requirements of the Davis-Bacon Act of individual contractors.

*Current Status:* Resolved



## Postlethwaite & Netterville

A Professional Accounting Corporation  
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June 13, 2003

Board of Commissioners  
Regional Transit Authority  
6700 Plaza Drive  
New Orleans, Louisiana 70127-2677

Dear Commissioners:

We have audited the financial statements of the Regional Transit Authority (RTA) for the year ended December 31, 2002, and have issued our report thereon dated June 13, 2003. In planning and performing our audit of the financial statements of the RTA, we considered the RTA's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, is intended to improve internal control or result in other operating efficiencies and is summarized in Appendix A. Appendix B contains a list of the status of prior year comments. Appendix C contains management's response (management's corrective action plan) to the comment and recommendation which was summarized in Appendix A.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of RTA's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Board of Commissioners, the Louisiana Legislative Auditor's Office, federal and state grantors, management, and others within the RTA.

Very truly yours,

CURRENT YEAR MANAGEMENT LETTER COMMENTS

**Expense Reimbursements**

We noted that certain materials and supplies were acquired by employees were in excess of the RTA's \$500 procurement amount, which would require bids. We recommend that the RTA's procurement procedures be followed for all acquisitions of materials and supplies in excess of the \$500 authorized limit. We also recommend employees' reimbursements for materials and supplies be restricted to unusual or emergency circumstances.

**Insurance Payroll Deductions**

We noted during our tests that employee deductions for life and health insurance were incorrect for 16 of our 40 sample selections. We recommend that procedures be developed to monitor the accuracy of these deductions, including periodic testing of actual payrolls, testing of the employees' database, and monitoring by human resources.

**Cash Counting Room**

The RTA's procedures require daily reconciliations of the revenue. During our testing of fare revenue we noted seven cash deposits which were not reconciled with Cash Counting Room reports on a timely basis. Some differences were not reconciled for several months. We recommend that procedures requiring daily reconciliation be performed timely and that any exceptions to the daily reconciliation be reported to appropriate senior management for review and follow-up. Exceptions to the daily reconciliation procedures should be rare.

**Property Inventory**

The RTA and State law requires an annual inventory for property items. During the testwork, we noted several items which could not be located or which contained incomplete or inadequate descriptions. We recommend that the RTA review its procedures to determine processes to reduce or eliminate these differences.

**Accrued Sick Leave**

The RTA adjusts its sick leave liability once a year. We recommend that procedures be put in operation to adjust sick leave amounts on a monthly or quarterly basis.



### **Pension Benefits**

The tests for pension revealed two participants whose benefits were continued after they were deceased. We recommend that periodic testing of participant benefits be performed to determine if the beneficiary is deceased.

### **Public Bid Laws and Policies**

In accordance with State laws and Federal Transportation Department requirements, the RTA has procurement policies which require bids prices quotes for certain procurements of goods or services. During our testing of compliance with the public bid laws and procurement policies, we noted several exceptions to the procurement procedures including completeness of files, number of prices quotes, and sufficiency of advertising. We recommend that the RTA's policies and procedures be adhered to and that the completeness of files be regularly reviewed.

## DISPOSITION OF PRIOR YEAR'S MANAGEMENT LETTER COMMENTS

<u>PRIOR YEARS'</u> <u>RECOMMENDATION</u>	<u>MANAGEMENT</u> <u>RESPONSE</u>	<u>STATUS</u>	<u>COMMENT</u> <u>DISPOSITION</u>
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***Customer Relations Checking  
Account***

Some customer relations disbursement checks have remained outstanding for more than a year. The RTA should implement a policy to initiate a letter to the payee after a check has been outstanding for over six months. If the payee cannot be located, a system should be in place to track the unclaimed funds and report them to the state in accordance with state escheat laws.

Concur Partially  
Implemented

The Accounting Department provides the Legal Department weekly with a "green bar" printout that includes settlements/judgments on our "Urgent List". In order to remove stale-dated checks from the system, the Legal Department will review the printout on a monthly basis (last printout of each month) to determine which checks need to be voided. Generally, the process will involve the handling counsel contacting adverse counsel to confirm the appropriateness of moving forward with a request for Accounting to void out the respective item.

***Cash Counting Room  
Reconciliation***

Discrepancies between the Cash Counting Room records and the GFI Fare Box records are not being investigated timely by the Supervisor of Transit Data because only monthly reports (rather than daily) are forwarded by the Accounting Department. RTA should initiate a policy to prepare Cash Counting Room reports on a daily basis to the Supervisor of Transit Data in order that discrepancies between the fare box and actual counts can be investigated timely.

Concur Partially  
Implemented

Daily, the deposit of revenue collections will be made available by the Treasury Department to the Scheduling, Data Department. This information will be reconciled daily to our farebox collection data by the Sr. Transit Analyst.

In addition, the general ledger amount recorded for deposits in transit did not agree with the supporting schedules. RTA should reconcile the general ledger activity with deposit data on a weekly basis to timely resolve any discrepancies.

Deposit information is input on a monthly basis by the Accounting Department. The Manager of Revenue sends his monthly revenue report for reconciling to the general ledger. All discrepancies occurring in 2002 were resolved in a timely manner.

PRIOR YEARS'  
RECOMMENDATION

MANAGEMENT  
RESPONSE      STATUS

COMMENT  
DISPOSITION

***Investments Reconciliation***

Investments of RTA for which statements are not received are reconciled to the general ledger primarily at the end of the year. In order to ensure that transactions are properly recorded, RTA should reconcile all investments at least quarterly. The reconciliation should be reviewed by the Treasurer for his concurrence.

Concur

Not  
Implemented

The Accounting Department has not received the necessary information for reconciling investments.

***Travel Advance Receivables***

Some travel advance receivables have remained outstanding for more than a year. The RTA should revise their policy to include commissioners in addition to employees. Current procedures should be adhered to and receivables for which proper documentation of expense is not received should be reimbursed from the person advanced or recorded to the appropriate expense amount.

Concur

Implemented

The outstanding travel advance receivables decreased tremendously in 2002. The Accounting Department sent out notices and made phone calls in an effort to resolve the old issues.

***East New Orleans Facility  
Security Cameras***

Upon inspection of the security camera monitor at the main guard shack of the East New Orleans Facility, the security camera displays were not clearly visible on the monitor. The RTA should periodically inspect the security equipment to ensure its proper operation. Supervisors and Internal Audit should coordinate the observation of security equipment with other site visits.

Concur

Partially  
Implemented

The security equipment for the new guard shack at ENO and for RTA's other properties went out to bid at February's 2003 Board Meeting. A monthly status report regarding the security equipment will be submitted.

PRIOR YEARS'  
RECOMMENDATION

MANAGEMENT  
RESPONSE      STATUS

COMMENT  
DISPOSITION

***Reconciliation of Claims Payment***

The total settlement and judgment amounts for 2001 closed cases did not agree to the amount of claims payments activity for the year. The Claims Department should reconcile the actual claims payments by claim year to data in its data processing system and submit this reconciliation to the Accounting Department on a monthly basis. In addition, the Claims Department should assess its case management software as it is becoming unsupported and a new software should be selected and implemented.

Concur      Partially  
Implemented

The Accounting Department records actual settlement and judgment payments based on payment requests received from the Legal Department. All activity flowing through the settlement account in the general ledger is driven by these transactions. A claim payment reconciliation has not been received from the Legal Department for comparison to the general ledger. However, in the future, the Accounting Department will request this information on a monthly basis so that the general ledger comparison is performed. The Legal Department will also test payment amounts against monthly conformance reports obtained from Budget. The Legal Department is currently evaluating new case management software and anticipates a new system will be implemented by the end of 2002.

***Filing of Payroll Authorization Forms***

The payroll authorization forms resulting from raises during the current year were not filed in the employee files upon the original request of the information. The forms were filed subsequently as observed in further follow-up. The Human Resources Department is currently required to file all payroll authorization forms in the corresponding employee file in a timely manner. The RTA should consider hiring a file retention clerk to file all payroll authorization forms as well as other employee related information in the corresponding employee file in a timely manner.

Concur      Partially  
Implemented

The department has a record retention clerk budgeted for calendar year 2003. However, in the interim, all backlogged filing has been completed.

PRIOR YEARS'  
RECOMMENDATION

MANAGEMENT  
RESPONSE

STATUS

COMMENT  
DISPOSITION

***Central Filing of Benefit Election  
Documentation***

During the audit, the Human Resource Department had difficulty in locating employee benefit election forms for third party insurance. The supporting documentation for enrollment and election of benefits is currently filed separately from the employee human resource files.

Concur      Implemented

The Department has taken steps to more efficiently maintain its benefits records by hiring a Benefits Administrator to manage the daily activities of the benefits section. Benefits are kept separate from personnel files due to the nature of confidential medical & personnel data maintained within the benefits folders.

To ensure that the adequate documentation exists, the Human Resources Department should file all enrollment and election documentation in the employee file or in some other organized manner in order to better ensure that necessary documents are being adequately maintained.

***Life Insurance Payroll Withholdings***

The calculation of the employee contributed portion of the company life insurance did not include the most current pay rates. The tables used in the calculation were not updated at the time that raises were implemented. The impact of this miscalculation was that the employer incurred excess expenses.

Concur      Implemented

Procedures have been developed that validate the employee contribution amounts based on a J.D. Edwards Calculation Table. The Benefits Staff is also conducting quarterly audits of the deduction amounts from employees based on current contract rates.

All calculations dependent on current pay rates should be based on data that is centrally located and updated. These rates should be verified by Human Resources and Internal Audit. The internal audit recommended above should include a review of all benefit rate calculations.



PRIOR YEARS'  
RECOMMENDATION

MANAGEMENT  
RESPONSE      STATUS

COMMENT  
DISPOSITION

***Contingency for Power Outages***

Currently, the computer systems have battery backup units that provide power for a limited number of hours. A lengthy power outage could result in the temperature of the server room rising to a level causing server shut down. The RTA should consider an emergency generator designed at maintaining adequate power for specific circuits in the main building for more than a few hours.

Concur      Implemented

RTA has implemented RAID 5 on all data base systems. RTA's UPS systems enable I/S staff members to perform an orderly system shut down in the event of an extended power outage. All departments would implement its manual procedures until the system is made available once power is restored. The data contained on RTA's AS/400 and file servers would be in tact and available to the agency once power is restored.

***Perpetual Property System***

During observation of existence of fixed assets on a sample basis, several items on the perpetual property listing could not be located. Upon further inquiry, it was discovered that the items were old and may have been disposed of and not recorded in the perpetual property system. Internal Audit should perform a review of the perpetual property system to determine whether older items have not been disposed of.

Concur      Implemented

Some of the items listed on the property report did not exist because, at the time of construction at the Canal and ENO facilities, properties were demolished. As a consequence some property items were also destroyed. Due to lack of proper asset identification and authorization they could not be taken off the property records. Efforts will be made in conjunction with Internal Audit to identify destroyed items and record necessary disposals.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN TO CURRENT YEAR  
COMMENTS

CURRENT YEAR COMMENTS

**Expense Reimbursements**

We noted that certain materials and supplies were acquired by employees were in excess of the RTA's \$500 procurement amount, which would require bids. We recommend that the RTA's procurement procedures be followed for all acquisitions of materials and supplies in excess of the \$500 authorized limit. We also recommend employees' reimbursements for materials and supplies be restricted to unusual or emergency circumstances.

**RTA Response**

*The employee reimbursements in excess of \$500.00 were isolated to one employee and were approved by former management. Current management will follow procurement procedures that require bids for all acquisitions of material and supplies in excess of \$500.00. Employee reimbursements will be limited to travel, unusual or emergency circumstances.*

**Insurance Payroll Deductions**

We noted during our tests that employee deductions for life and health insurance were incorrect for 16 of our 40 sample selections. We recommend that procedures be developed to monitor the accuracy of these deductions, including periodic testing of actual payrolls, testing of the employees' database, and monitoring by human resources.

**RTA Response**

Procedures have been developed that validate the employee contribution amounts based on a J.D. Edwards Calculation Table. The Benefits Staff is also conducting quarterly audits of the deduction amounts from employees.

**Cash Counting Room**

The RTA's procedures require daily reconciliations of the revenue. During our testing of fare revenue we noted seven cash deposits which were not reconciled with Cash Counting Room reports on a timely basis. Some differences were not reconciled for several months. We recommend that procedures requiring daily reconciliation be performed timely and that any exceptions to the daily reconciliation be reported to appropriate senior management for review and follow-up. Exceptions to the daily reconciliation procedures should be rare.

### **RTA Response**

Daily, the deposit of revenue collections will be made available by the Treasury Department to the Scheduling, Data Department. This information will be reconciled daily to our farebox collection data by the Sr. Transit Analyst. All discrepancies will be investigated and reconciled between the Treasury and Schedule, Data departments. Findings or reconciled explanations will be included in a bi-weekly report and forwarded to the Director of Accounting, the Deputy General Manager of Finance/Administration, and the General Manager. The bi-weekly reports will be finalized with a monthly report.

### **Property Inventory**

The RTA and State law requires an annual inventory for property items. During the testwork, we noted several items which could not be located or which contained incomplete or inadequate descriptions. We recommend that the RTA review its procedures to determine processes to reduce or eliminate these differences.

### **RTA Response**

Subsequent to the sampling performed by Internal Audit, two of the three fixed assets that could not be identified have since been located. The third item will be removed from the property ledger since it has been fully depreciated. The location information and description for five of the six fixed assets that did not agree with the data on the property ledger has now been updated with correct location information. Finally, the nineteen fixed assets that were not properly tagged or the tag number did not agree to the property ledger have since been corrected.

### **Accrued Sick Leave**

The RTA adjusts its sick leave liability once a year. We recommend that procedures be put in operation to adjust sick leave amounts on a monthly or quarterly basis.

### **RTA Response**

This was a newly established liability created during fiscal year 2001. The Accounting Department felt the liability was somewhat overstated but could not assess to what degree, therefore an adjustment was not made for fiscal year 2002. The Accounting Department will monitor the activity affecting the liability and will adjust the account on a quarterly basis.

### **Pension Benefits**

The tests for pension revealed two participants whose benefits were continued after they were deceased. We recommend that periodic testing of participant benefits be performed to determine if the beneficiary is deceased.

### **RTA Response**

The Pension Department has located a website Roots Web.com (an up-to-date Social Security Death Index) a search engine that will allow us to perform periodic (monthly) testing to determine if participant/beneficiary is deceased. Additionally, the two (2) deceased individuals pension payments were recouped through: (1) Bank retrieve funds from Participant's account. (2) Family member returned pension check.

### **Public Bid Laws and Policies**

In accordance with State laws and Federal Transportation Department requirements, the RTA has procurement policies which require bids prices quotes for certain procurements of goods or services. During our testing of compliance with the public bid laws and procurement policies, we noted several exceptions to the procurement procedures including completeness of files, number of prices quotes, and sufficiency of advertising. We recommend that the RTA's policies and procedures be adhered to and that the completeness of files be regularly reviewed.

### **RTA Response**

Regarding the Debra Gould file, this was a <\$10,000.00 solicitation for the EEO department. The EEO department wanted to award this contract to a DBE so the Procurement Department solicited to two known local DBEs that could provide this service. Based on the two proposals RTA received, the EEO office selected Debra Gould & Assoc to provide this service. Because of the dollar value, this project did not require advertisement.

Regarding the Stewart & Stevenson contract, this was for award of bus parts carried in inventory for a period of five years. Because the JD Edwards and ELKE systems do not communicate at our level the following procedures are the only way we know that these types of contracts can be coordinated. The contracts department handles the solicitation and award of the contract. At that point, the small purchases section is notified that a contract has been awarded, the parts included, the unit prices to be paid, and the expiration date of the contract. This information is recorded on the purchasing cards in small purchases. Then whenever that part is needed, a requisition is initiated and the Buyer pulls the purchasing card and orders the item requested in the quantity approved from the vendor and at the price specified on the card. Then the Buyer issues an ELKE purchase order for the parts. The parts are received against the ELKE purchase order and in the ELKE system. At some point after this has occurred, the ELKE system notifies the JD Edwards system of the transaction. This solicitation was advertised and was awarded pursuant to the Invitation for Bids process contained in the RTA procurement manual.